



# Enabling Cost Management for Improved Decision Making

Army Day – PDI 2007

*“GFEBS will provide the Army with Cost Management functionality to accurately capture and reflect the true cost of our operations, products and services” - GFEBS Capabilities Design Document*

SAFM-CES-C  
GFEBS Cost Team Lead

# Agenda

- Cost Management Definition**
- Army Cost Management Direction
- How GFEBS will Enable Cost Management
- Changes from Today's Processes
- GFEBS Cost Management Process / Status

- **The Practice of Understanding What Causes Costs to Occur and Then Using That Information to Achieve a More Desirable Outcome. Benefits Include:**
  - ✓ Reducing Cost and Preserving Resources for Other Military Missions
  - ✓ Supporting Continuous Improvement and Accountability
  - ✓ Increasing the Capability to Satisfy Customer Demand
  - ✓ Analyzing Value Provided by Activities

**Cost Management Sounds Like “Do More With Less” - *It Can Be!***

- *Improves Efficiency and Effectiveness*
- *Identifies & Frees Resources for Alternative Uses*
- *Improved Methods / Processes Lead to Doing More With Less*
- *Provides Quicker / Better Reaction to Resource Constraints*

# What is Cost Management?

GFEBS 

**A Cycle of Determining Cost Information, Forecasting, Measuring, & Reviews Using the Chain of Command:**

**Cost Measurement**

**GFEBS** 

**Cost Management**

**Cost**

- Determine Accurate Costs,
  - *Cost Measurement System to Cost Data &*
- Gather Information
- Forecasting & After Action Reviews
  - *Improve Business Processes,*
  - *Eliminate Waste,*
  - *Cost Estimating,*
  - *Plan Operations & Set Enterprise*

# Cost Measurement is Required



- 1. Cost Measurement Has Meaning Only When Considering Its Purpose**
- 2. Defining Cost Measurement Should Be Carefully Considered and Evaluated**
- 3. Alternative Cost Methods Should Be Evaluated Under Operating Environment**



***Purpose Is the key to Understanding Army Cost Model Design (GFEBS)***

***Army's Cost Management Purpose  
Is to Provide Operational Managers  
With Relevant "True" Cost***

Source: The Federal Accounting Standards Advisory Board (FASAB) SFAS No. 4. Managerial Cost Accounting Standards

# Many ways to Measure Cost

## *Methodology vs System*



- Army's Purpose is to Provide Operational Managers With Relevant "True" Cost Information to Make Sound Economic Decisions
- Methodologies to Measure Cost (FASAB #4)
  - Activity Based Costing
  - Job order costing
  - Project costing
  - Incremental costing
  - Hybrid
- Cost Measurement System
  - Gather Cost Data and Information

Traditional vs Cos View			
For Notional Business Process to Account for Installation Property			
<u>Traditional View (Inputs)</u>		<u>CostView (Activities)</u>	
Salaries	\$501K	Issue Property	\$ 40K
Supplies	44K	Receive/Turn-In Property	72K
Contracts	45K	Maintain Prop. Book	279K
Travel	17K	Store Property	136K
Transportation	<u>19K</u>	Administrative Support	<u>99K</u>
	\$626K		\$626K

Army

Range of Approaches

Ad  
Hoc

SAS  
Oros

SAS  
ABM

CM  
Structure

GFEBS

Cost ~~/=~~ Budget = Obligations...

GFEBS 

- Cost Accounting / Management New to Most of Army
- Provides Financial and Managerial Information
- Cuts Across financial and operational organizations
- Is Driven by Information Needs of the Operational Army not solely the Financial Community

## Budget Formulation

## Budget Execution

## Cost Management

<b>Budget</b> »President's financial plan and the priorities for the Federal Government	<b>Budget Authority</b> »Authority to incur obligations	<b>Cost</b> »Valuation of resources used to produce outputs, basis for decision making
<b>Focus</b> »requirements	<b>Focus</b> »availability, obligations	<b>Focus</b> »full cost
<b>SAP</b> »BW/BPS	<b>SAP</b> »FM	<b>SAP</b> »CO / BW / BPS
<b>Data Streams</b> »requirements, formulations	<b>Data Streams</b> »budget, actual COED	<b>Data Streams</b> »plan, target, actual expenses -> cost, rates, performance measures
<b>Key Data Elements</b> »appropriation, FTE	<b>Key Data Elements</b> »appropriations, EOR's, PE, MDEP, projects, BLIN, etc.	<b>Key Data Elements</b> »operational entity (e.g. cost centers), services, rates, products, projects, etc.
<b>Questions</b> »What will I ask for?	<b>Questions</b> »What funding did I get ? »What obligations were executed?	<b>Questions</b> »What was expensed? »What did I get for it? »How well was it used?
<b>Process Dependencies</b> »budget requests are the base for appropriations	<b>Process Dependencies</b> »consolidates operational expenditures across budget entities	<b>Process Dependencies</b> »capture full cost components regardless of budget entities/authority

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# The Army Requires A Great Deal Of Resources

GFEBS 

Army budget  
\$200 billion  
annually

\$ 38 billion of inventory  
\$120 billion in general property, plant & equipment  
\$ 40 billion environmental liabilities

- 70 Brigade Combat Teams (BCT)
  - » 42 Active BCT
  - » 28 USARNG BCT
- 200 Support Brigades
  - » Active, USARNG and USAR
  - » Multifunctional, e.g., Combat Aviation, Sustainment
  - » Functional, e.g., Engineer, Military Police, Signals

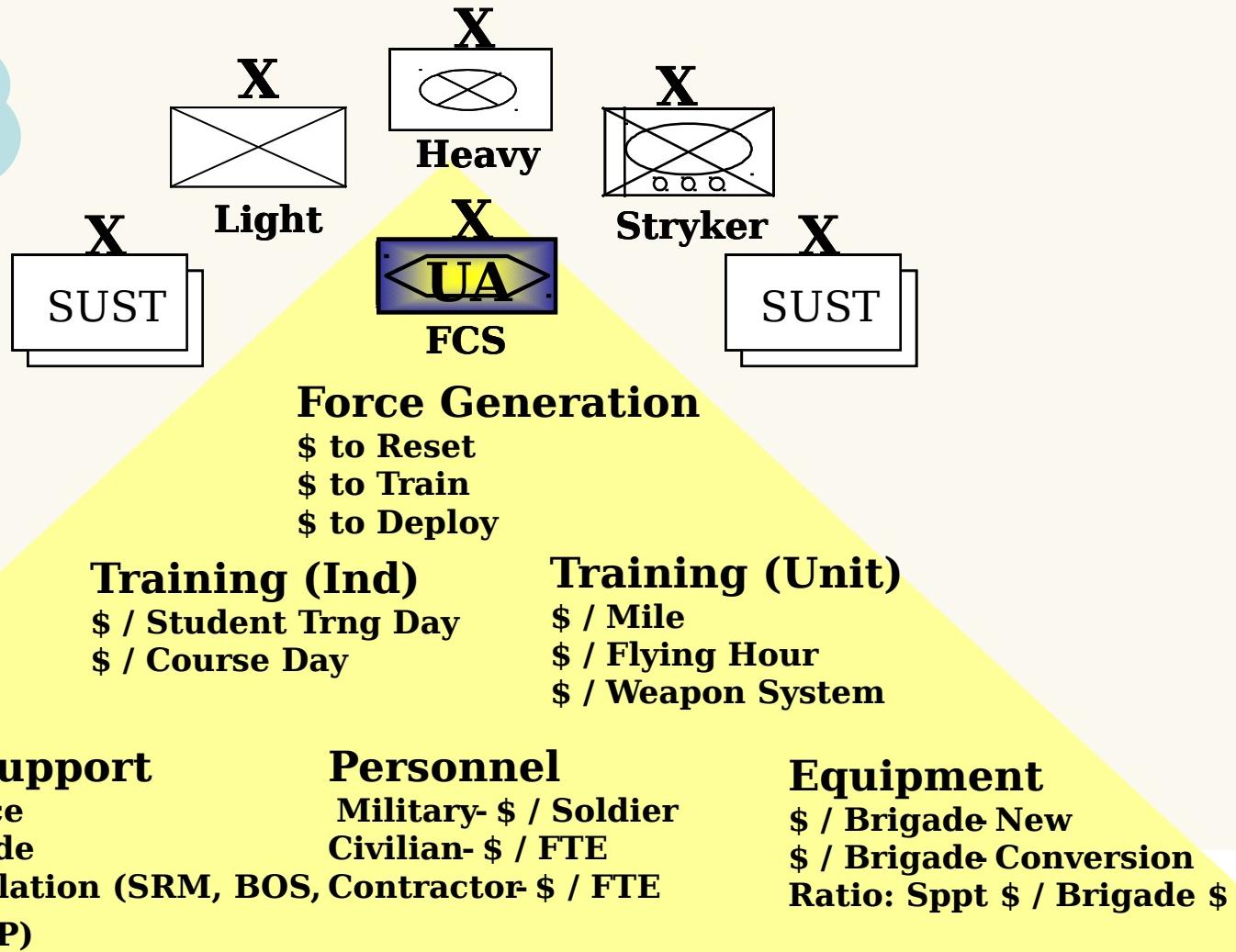
- 482,000 Active Soldiers
- 350,000 National Guard Soldiers
- 205,000 Army Reserve Soldiers
- 229,000 Civilians

- 10,000 Major Items of Equipment
- 300,000 Spares and Repair Parts (Army managed)
- 250 Installations With Thousands Of

# Need to Understand What the Resources Buy - The Army Product

GFEBS 

Sets  
Framework for  
Developing  
Army-wide  
Cost Structure



# Cost Management Reporting Requirements

GFEBS 

- **Cost by Brigade**

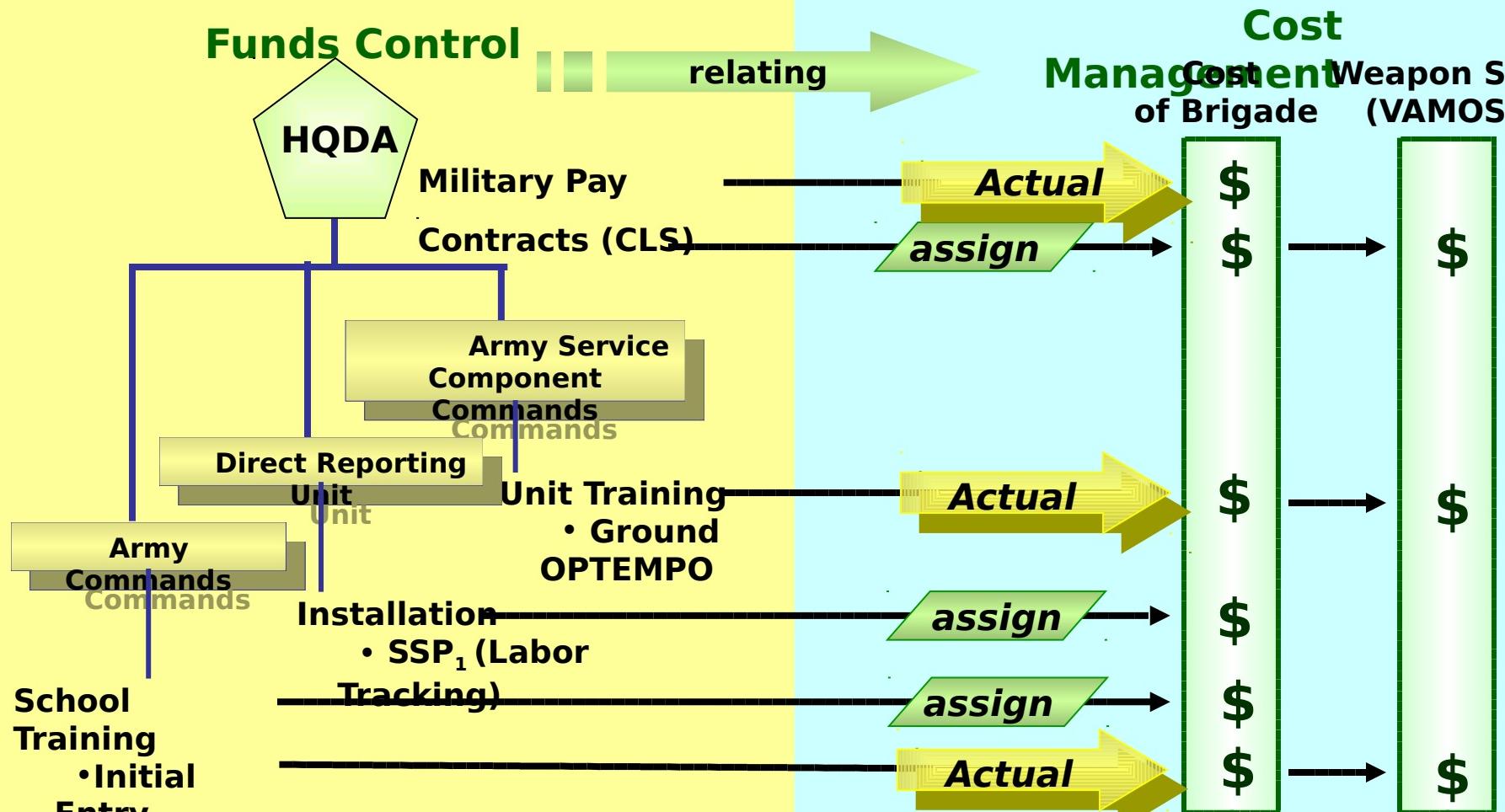
- » Equip Brigade
  - Weapon System (RDT&E & Procurement)
  - Depot overhaul
  - Transportation
- » Train Brigade
  - Training Ranges
  - OPTEMPO
- » Man Brigade
  - Recruit / Retain
  - Institutional Training
  - MILPERS (labor cost)
- » Support Brigade
  - Base Operations (IMA)
  - Other (e.g., NETCOM, MEDCOM, INSCOM, CIDC, USACE, MDW)
- » Brigade Operations
  - US Army (Central, North, South, Europe, Pacific), EUSA, SDDC, SMDC/ARSTRAT, USASOC
- » Corporate Overhead
  - HQDA & ARMY COMMAND HQs
  - Military Academy

HQDA will establish Enterprise-wide Business rules for:

- Allocation (At Appropriate Levels)
- Costing Methods
- Required Cost Structure

# GFEBS Enables Funds Control And Cost Management

# GFEBS



# **GFEBS enables Army to “slice and dice” data for decision-making**



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# Army Cost Management Strategies for Efficiency & Continuous Improvement

GFEBS 

Captures Low Hanging Fruit  
Provides Initial Savings

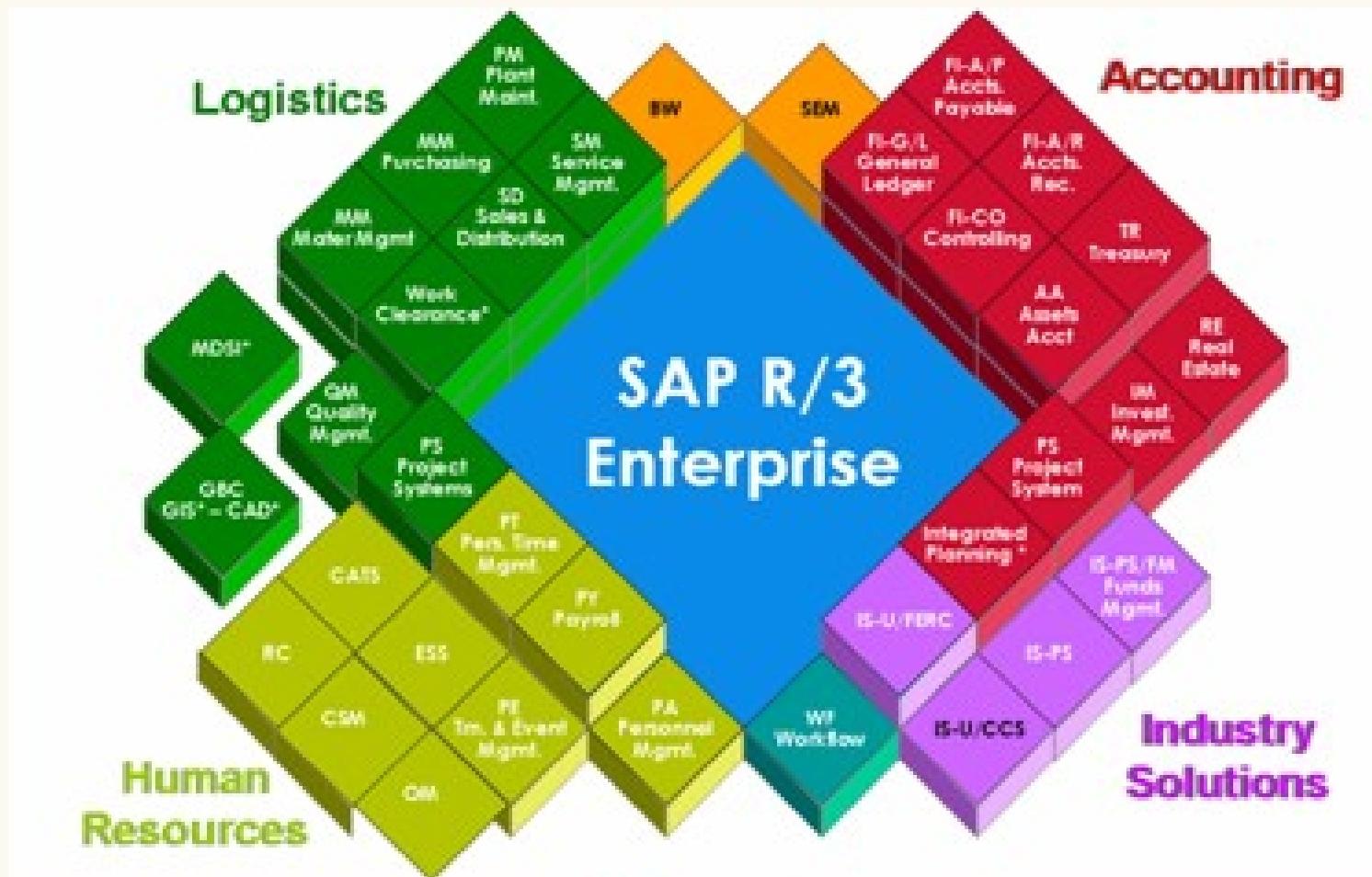
	Top Down / Centralized Approach	Operational Level / Decentralized Approach
One Time Fixes	- A-76 - Standardization - Reorganizations	- Business Process Reengineering - Business Process Improvement - Reorganizations
Continuous Improvement	- Budget Management - Reduction Targets - GPRA, PMA	<b>GFEBS Cost &amp; Performance Management</b>

- Achieved through existing Financial Systems
- Reduces Spending
- Gains some

- Requires Managerial Costing
- Supported by Cost Accounting
- Leads to Efficiency & Effectiveness

# SAP Provides Integrated Solution

GFEBS 



# Benefits of Integrated Cost and Financial System

GFEBS 

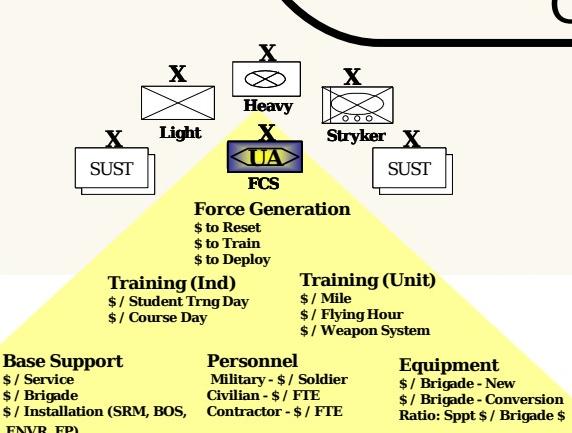
Financial (FI) Module	STANFINS	Controller (CO)
• Compliant with CFO ACT and GAAP Standards	X	• Compliant with GPRA and FASAB Statement #4
• Provides consistent, auditable and repeatable transactions that meet external reporting requirements.	X	• Provides flexibility in capturing relevant cost information to meet recurring and one time internal management needs.
• Separate but integrated transactions - maintains integrity of FI data while allowing costing flexibility in CO.	X	• Separate but integrated transactions – allows variations in CO costing with controls set in FI to manage financials.
• Manageable, high level external reporting to meet Congressional, OSD, and Army requirements without low level, detailed reconciliations and budgeting efforts.	X	• Cost & Execution can be captured at greater levels of detail, against programming and planning targets as required (integrated with non-financial data)

# How Costs are Collected

GFEBS 

Cost Objects	Organizational Entities	Real Property / Equipment	Program / Project	Task / Activity	Special Event or Initiative
GFEBS (SAP) Cost Collectors	Cost Centers	Assets / Real Estate Objects	Project / WBS	Business Process	Internal Order
Army Examples	<ul style="list-style-type: none"> <li>• Installation</li> <li>• Brigade</li> <li>• School</li> <li>• Directorate</li> <li>• Lab</li> </ul>	<ul style="list-style-type: none"> <li>• Building</li> <li>• Training Range</li> <li>• Weapon System</li> </ul>	<ul style="list-style-type: none"> <li>• Acquisition</li> <li>• RDTE Project</li> <li>• MILCON Project</li> <li>• System Test</li> </ul>	<ul style="list-style-type: none"> <li>• Service Support Program (SSP)</li> <li>• Instructional Course</li> <li>• Repair Process</li> <li>• Test Run</li> </ul>	<ul style="list-style-type: none"> <li>• BRAC</li> <li>• Training Event</li> <li>• Mandatory Training</li> <li>• Support to Olympics</li> </ul>

Cost assigned Directly or Indirectly



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## Framework

### 3 Tiered Hierarchy of Master Data and Managerial Information:

**Upper:** Meet Legal & Regulatory Requirements (OSD, OMB, Congress)

**Middle:** Meet Leadership Information Requirements (Army, DoD)

**Lower:** Provide Managerial Information (Army Commands and below)

### Macro Linkage of the 3 Tasks & Outcomes:

#### Budget Management

- Build and manage execution year Budgets below HQ Dept. of Army
- Inform leadership decisions during execution year
- Support formulation of the Army Budget

#### Funds Management

- Distribute funds
- Control funds
- Monitor funds execution
- Report legal and regulatory requirements

#### Cost Management

- Report cost for internal decision making
- Measure cost & performance execution
- Conduct cost variance analysis
- Link cost to outputs

# Cost Management

## *Today and Tomorrow*

GFEBS 

### Today

#### **MEASUREMENT**

- Business Areas supported by standalone software
- Crude links with financial systems
- No cost management structure - Cost roll-ups difficult
- Time & attendance w/o work indications

#### **MANAGEMENT**

- Budget Mgmt culture focused on Reporting
- Budget vs cost skills/staff imbalance



**HOW  
DO  
WE  
GET  
HERE  
?**

### With GFEBS Tomorrow

#### **MEASUREMENT**

- CM functionality in GFEBS directly linked with financial data
- Common cost management structure enables cost roll-ups
- Tracks Labor by Work Performed / Output

#### **MANAGEMENT**

- Cost Mgmt culture focused Internal Decision Making
- Budget vs cost skills/staff balanced

# Cost Structure

## Today:

- ✓ Appropriation
- ✓ Organization
- ✓ MDEP
- ✓ Element of Resource (EOR)
- ✓ PE/AMSCO/APC
- ✓ Functional Cost Account
  - Typically captures financial obligation data
  - Not Full Cost
  - Financial Focus not Managerial
  - Not linked to Output

## Tomorrow (GFEBS):

- ✓ Product
  - ✓ Service
  - ✓ Customer
  - ✓ Tenant
  - ✓ Facility
- 
- Based on accrual/expense by transaction
  - Will be Focused on Full Cost
  - For Internal Management not External Fiduciary Reporting
  - Linked to Output

# Cost Collection Methods

GFEBS 

## Today:

- ✓ Independent Systems
- ✓ Data Calls
- ✓ Multiple Varying Structures
- ✓ Mapping, Manipulation and Gross Allocations
- ✓ Limited Labor Tracking / Cost Accounting
  - Not Full Cost
  - System Not Flexible
  - Ad Hoc for Management Decisions
  - Cost Collected Separately & Different

## Tomorrow (GFEBS):

- ✓ Integrated System (ERP)
- ✓ Cost Accounting Functionality
- ✓ Controlling Module
  - Job Order Cost
  - Project Cost
  - Standard Costing
  - Activity Based Cost
- ✓ Will Track Labor
  - Full Cost
  - Standardization & Flexibility
  - Provides Analytical Capabilities
  - Cost Assigned to Appropriate Accounts

# Cost Allocation

## Today:

- ✓ Not All Cost Allocated
- ✓ Focused on Direct Obligation by Appropriation
- ✓ Assigned / Mapped to High Level Programs (e.g. MDEP)
- ✓ Allocation Done Differently by Organization
- Inconsistent Army Reporting
- Not Full Cost
- Financial Focus to Meet Budget Execution Reports
- Not linked to Output

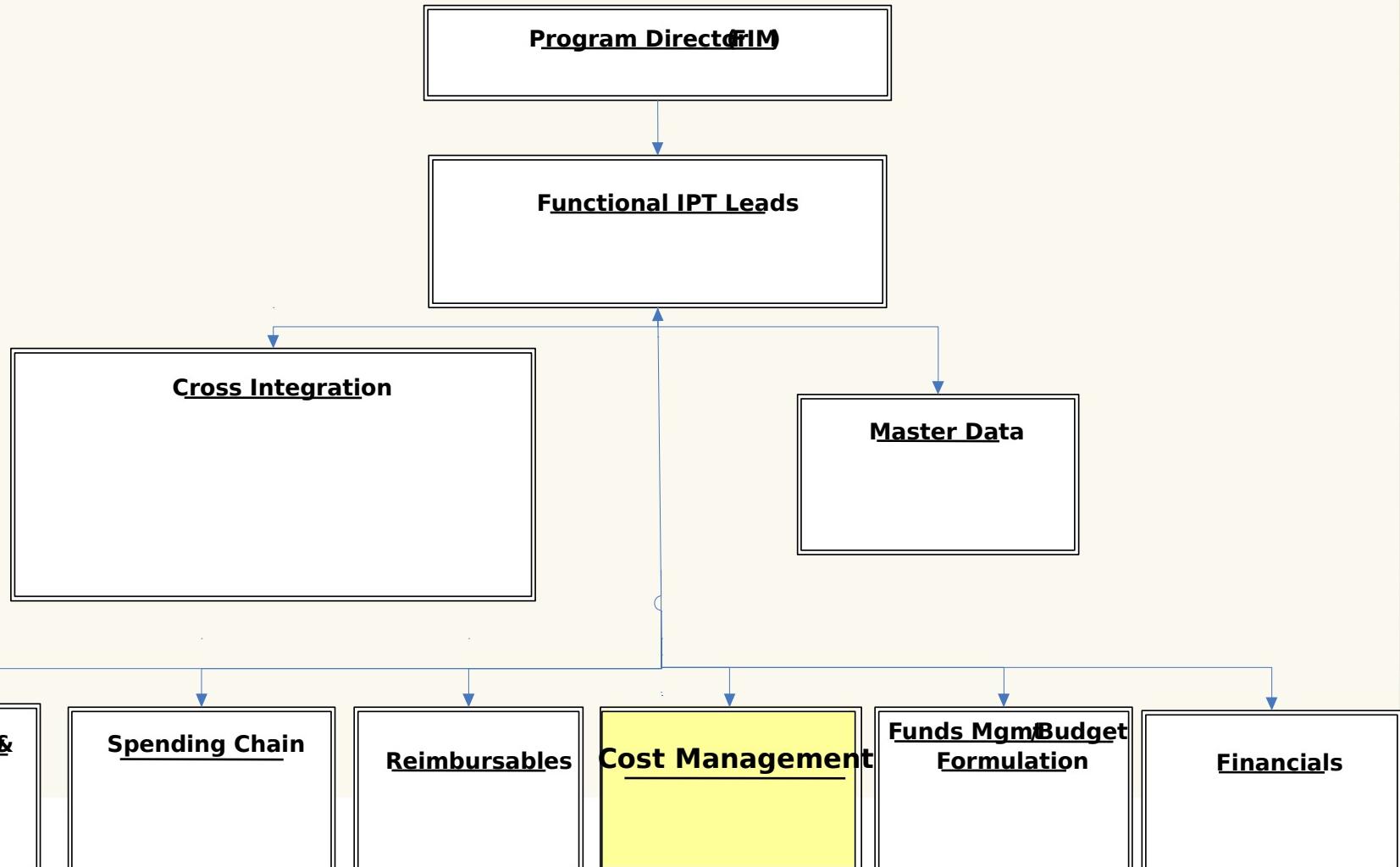
## Tomorrow (GFEBS):

- ✓ Standardized Process
- ✓ Will Use Acceptable Cost Allocation Practices
- ✓ Will Provide Capability for Multiple Cost Allocations
- ✓ Allocations Only where Direct Assignments not Used
- Required for Full Cost Accuracy
- More Accurately Defines Overhead & Indirect Cost
- Maintains Budget Execution Capability
- Linked to Output

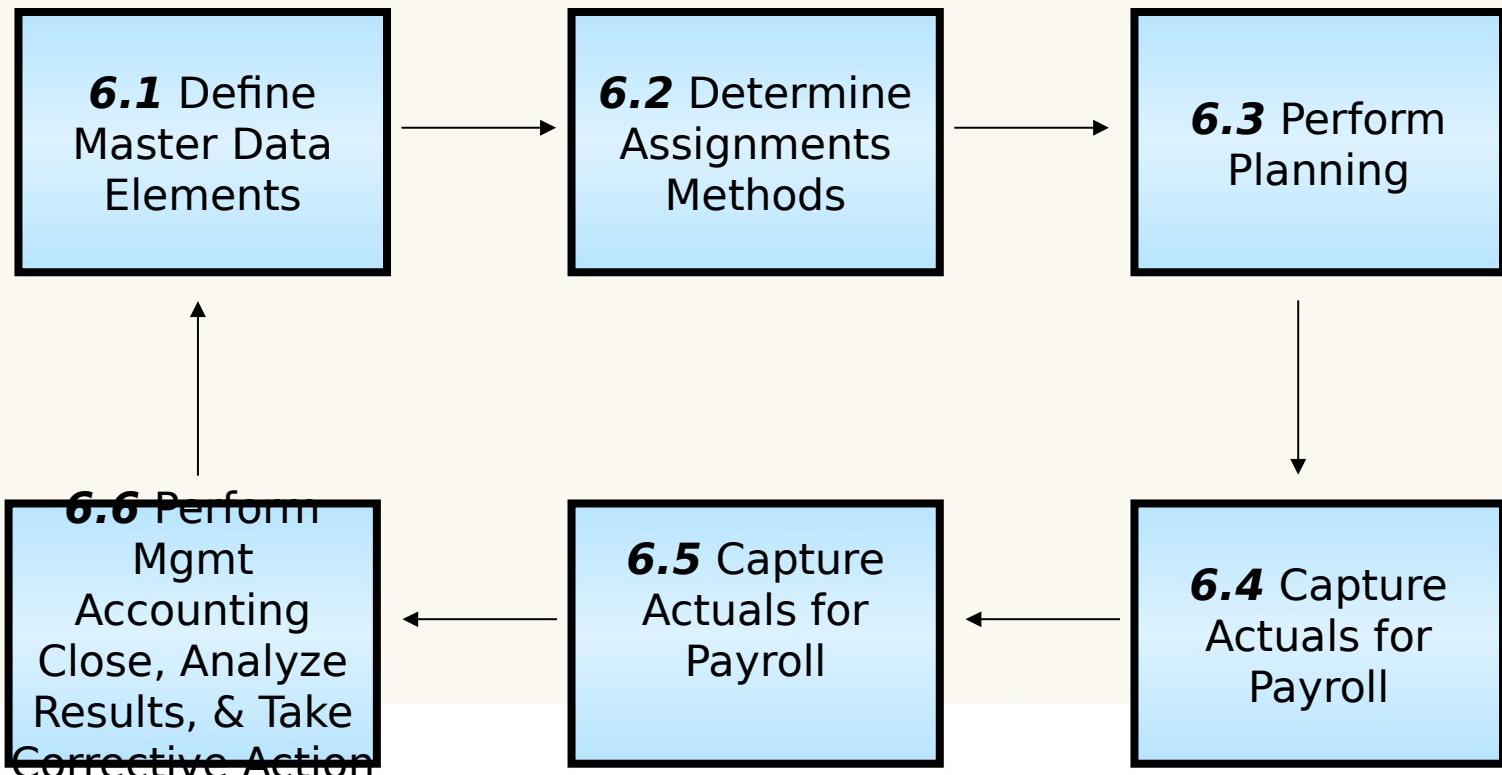
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# Functional Integration IPT **GFEBS** \*



## ***6.0 Cost Management (Perform Management Accounting)***



# Cost Management

## ▪ Process Overview:

» **The GFEBS implementation of the SAP Controlling component will provide the Army with full Cost Management functionality to:**

- Provide the Army with better decision support information by integrating expenditure, cost, and output data across the Army
- Enable Full Costing of product, service, organization, project, or other cost objects across the Army
- Enhance decision-making based on real-time, accurate, relevant, and transparent cost information
- Provide the ability to establish Cost Targets and Plans, Compare Actuals, and Improve Forecasts
- Retain all of the content and critical data relationships as they exist today in the legacy financial systems (e.g. DFAS 37-100 FCA, EORs, AMSCO point accounts) using SAP COTS cost objects

# Cost Management

- Key Assumptions/Decisions:

- » **Policy and Guidance** - HQDA will establish for Master Data, Cost Assignments, Time Tracking, Standard Rates, and Variance Reporting
- » **GFEBS Cost Center Structure** - AR 10-87, OSD Organization Unique Identifier, and Army Unique Identifier Code will serve as foundation
- » **Organizational Changes** - Originate by G3, G1, G8 through external process
- » **Maximize Standardization** - standard assignment methods, rates and structures will be used where possible
- » **Time Tracking** - will be used where applicable to associate work hours with detailed activities (e.g. Service/SSP)

- Degree of Change: High

- » Majority of Army does not have standard cost objects defined in financial accounting system
- » Army proponents currently create, collect, and use cost accounting data on ad hoc basis only
- » Only limited cost accounting - Army reimbursable organizations (e.g. ATEC, ARDEC)

# Release 1.2 Accomplishments To Date for Cost Mgmt Team



- Completed Blueprint Design
- Identified RICEFW
  - Reports
  - Conversions
  - Forms
  - Interfaces
  - Enhancements
  - Workflow
- Identified Potential Gaps in System Requirements
- Developing Conceptual Cost Model by Business Area
  - Currently Finalizing IMCOM
- Conducting Study of Labor Tracking Systems
- Conducting Study Methods for Capturing Contract Labor
- Design Phase Kickoff (1 May 07)